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RE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION
OF U S WEST COMMUNICATIONS, INC.,
A COLORADO CORPORATION, FOR A
HEARING TO DETERMINE THE
EARNINGS OF THE COMPANY, THE
FAIR VALUE OF THE COMPANY FOR
RATEMAKING PURPOSES, TO FIX A
JUST AND REASONABLE RATE OF
RETURN THEREON AND TO APPROVE
RATE SCHEDULES DESIGNED TO
DEVELOP SUCH RETURN.

Docket No. T-01051B-99-0105

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
Testimony Summary of Ben Johnson, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 29th day of November, 2000.

[Signature]
Scott S. Wakefield
Chief Counsel, RUCO

AN ORIGINAL AND TEN COPIES
of the foregoing filed this 29th day of
November, 2000 with:

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SUMMARY OF TESTIMONY

OF BEN JOHNSON, PH.D.

On Behalf of

THE STATE OF ARIZONA

RESIDENTIAL UTILITY CONSUMER OFFICE

Before the

ARIZONA CORPORATION COMMISSION

Docket No. T-01051B-99-0105

In my supplemental testimony I summarize Staff and Qwest's proposed price cap plan, and the rate design aspects of Staff and Qwest's proposed settlement agreement, and briefly discuss price cap regulation as an alternative to traditional regulation. I then comment on various aspects of Staff and Qwest's proposed settlement agreement, including the attached price cap plan, and provide some concluding thoughts.

The Commission should not accept the proposed starting rate levels included in the proposed settlement. The level at which prices will be capped is crucially important. This issue cannot be adequately resolved without examining the evidence that current rates are too high, or the evidence that current rates are generating excess profits. As explained by other RUCO witnesses, the evidence demonstrates that Qwest is currently earning more than its cost of capital, and thus a substantial rate reduction is warranted at this time.

Furthermore, in other jurisdictions LECs have often accepted, or been required to implement, rate reductions in order to gain the increased pricing freedom and other benefits of price cap regulation. The proposed settlement agreement implements a substantial rate increase under circumstances where a rate decrease would be far more appropriate.

Moreover, the adverse impact of this unwarranted rate increase will tend to be even greater under price cap regulation than if traditional regulation were to continue to be in force. The proposed price cap plan will tend to "lock in" excess profits for years to come, and make it more difficult, or impossible for customers to obtain any share of the cost savings, synergies and other benefits which will result from the recent Qwest merger.

If the Commission accepts the proposed \$43 million increase, rather than decreasing rates as I would recommend, rates for services in Basket 3 could increase dramatically. The additional "headroom" created by this proposal provides an opportunity for drastic increases in individual services, including services which may subsequently be moved into this basket.

With regard to the proposed service baskets, the plan appropriately separates wholesale and retail services into distinct baskets. However, other aspects of the plan are seriously deficient. The three service baskets are too broad, and the basis for classification is too ambiguous and confusing. Further, new services would be automatically placed in Basket 3, even if they are services where little or no opportunity for competition exists. This aspect of the proposal is particularly unreasonable, because it fails to provide any assurance that the resulting rates will be

fair, just and reasonable, and it effectively eliminates the protection from monopoly power which customers have traditionally enjoyed.

The rate ceiling imposed by the plan is also deficient. For instance, the 25% per year limitation on rate increases for certain basket 1 services is far too loose. A more reasonable approach would apply lower percentage limits, which would apply to specific rate elements or prices, rather than the overall average rate level within each service. The latter approach would provide far more protection to customers, yet it would not be burdensome or administratively difficult to implement. In fact, in North Carolina, Bell South, GTE and Sprint have all voluntarily stipulated to price cap plans which include strict limits on rate element increases, and this approach has proven to be administratively workable and effective.

With regard to the price floors, the proposed settlement agreement does not contain sufficient protection from anti-competitive underpricing. The plan relies heavily on cross referencing existing provisions of the Commission's rules, and it is not self-evident how these provisions will be applied or interpreted in this context. For instance, in Qwest's response to our discovery, it seemed to indicate that it only intends to impute access costs to the extent access is deemed "essential" under the Commission's rules. Yet, only "terminating" access is identified in the existing rules as an "essential" service. Thus, Qwest apparently intends to exclude originating access charges from its price floor calculations even though its toll competitors are generally forced to pay Qwest for originating switched or special access. Thus, the plan would potentially allow Qwest to set retail prices below the corresponding wholesale rates paid by its competitors, thereby subjecting these competitors to an anti-competitive price squeeze.

Furthermore, the proposed settlement includes provisions which provide Qwest with broad freedom to create new packages of retail services which it will be allowed to price at very low levels, below the wholesale UNE rates paid by its competitors. These provisions are far too low, providing Qwest with an opportunity to squeeze its UNE-based competitors out of business.

Finally, the service quality provisions of the proposed agreement are inadequate and need further scrutiny. The existing regulatory provisions have not been adequate to ensure that every customer consistently receives high quality service. While the settlement proposal takes some modest steps towards encouraging better quality, these are not adequate, especially considering the increased incentives which will exist under a price cap plan for Qwest to sacrifice quality in striving to cut costs and increase profits.